

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Competitive Product Prices  
First-Class Package Service  
First-Class Package Service Contract 35

Docket No. MC2014-14

Competitive Product Prices  
First-Class Package Service Contract 35  
(MC2014-14)  
Negotiated Service Agreement

Docket No. CP2014-23

PUBLIC REPRESENTATIVE COMMENTS  
(January 07, 2014)

SUMMARY AND COMMENTS

On December 27, 2013, the Postal Service filed notice to add First-Class Package Service Contract 35 to the competitive product list. The Governor's Decision, supporting the Postal Service's filing "establishes prices for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates."<sup>1</sup>

The Postal Service filed documents comparing coverage for First Class Package Services in general with the coverage for a component of First Class Package Services included in its filing. While it is common for the Postal to use this method and account for expected partner differences from average cost components (mail processing,

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<sup>1</sup> Request of the United States Postal Service to Add First-Class Package Service Contract 35 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, December 27, 2013 (Request) at 2.

delivery, etc), the Public Representative cannot conclude the Postal Service has done so properly and is unable to support this contract.

## ARGUMENT

The Public Representative recalculated coverage for Mixed ADC and Single Piece Presort Mail on average, and for the partner. The Public Representative provides an admittedly rough estimate of average presort and weight limitations which applied to the proposed contract.<sup>2</sup> First, it determined that Mixed ADC/Single Piece presort volumes were substantially lower than all First Class Commercial Base and Commercial Plus Package Services volumes presented by the Postal Service in Docket No. ACR2012.<sup>3</sup> It then calculated the variability of each cost component and multiplied the percentage decline represented by this lower volume to determine the percentage decline in costs for each cost component, the new cost for each cost component, and the new unit cost for each component.<sup>4</sup> The proposed contract covers less than 100 percent of its costs under these assumptions, and despite having higher unit revenues, and would not comply with 39 U.S.C. § 3633(a)(2).

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<sup>2</sup> The Public Representative has filed its calculations under seal.

<sup>3</sup> Docket No. ACR2012, File: 2012 First Class Package Service BD\_PR.xlsx, Worksheet: BD Total.

<sup>4</sup> Since component costs are piggybacked, the variability of each component was adjusted downward by assuming the piggybacked costs had 100 percent volume variability. It also reduced mail processing and delivery unit costs by the MADC presort worksharing discount for mail processing and delivery. This method does not account for the lower unit mail processing costs that should be associated with the mail profile discussed in the proposed contract. Nor does it account for possibly lower unit costs that might be associated with other cost segments due to being limited to this profile. Moreover, the variabilities of the cost segments associated with this mail profile could be greater than the product average variability, especially mail processing variability, which would further reduce estimated average unit segment costs. Hence, the Public Representative does not claim the calculations show the proposed contract would not make a contribution to institutional costs. Nevertheless, the Postal Service should provide more appropriate data and calculations, either of this mail profile on average, or for the partner profile, in order to provide a reasonable expectation that the contract will make a positive contribution towards the Postal Services recovery of its institutional costs.

The Public Representative recognizes that the Commission generally accepts using average product costs compared to a modest modification of these costs based on the partner's profile. Using this method, the Postal Service found that the proposed contract made a positive contribution towards the recovery of its institutional costs. The Public Representative questions whether this method is appropriate when the proposed contract is limited to a small portion of the original product. When this is the case, the Postal Service should either limit average costs of the product to a similar profile proposed in the contract.

Had this been done, both base and contract contributions per piece would have been different.<sup>5</sup> Given the existing data, the Public Representative is unable to determine with certainty whether or not the proposed contract makes a positive contribution towards the recovery of the Postal Service's institutional costs.

Respectfully submitted,

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<sup>5</sup> The Postal Service has correctly calculated the weighted average revenue per piece of its partner's profile, which is higher than the benchmark revenue per piece. However, it is unknown whether or not average unit costs for this profile would increase, remain constant, or decline and by how much.